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Nos. 86-495, 86-624, and 86-625



IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

K MART CORPORATION,
*Petitioner,*

v.

CARTIER, INC., *et al.*

47TH STREET PHOTO, INC.,
*Petitioner,*

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

UNITED STATES OF AMERICA, *et al.*,
*Petitioners,*

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

## BRIEF FOR AMICUS CURIAE THE MOTOR VEHICLE MANUFACTURERS ASSOCIATION OF THE UNITED STATES, INC.

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## BRIEF FOR AMICUS CURIAE THE MOTOR VEHICLE MANUFACTURERS ASSOCIATION OF THE UNITED STATES, INC. IN SUPPORT OF THE POSITION OF RESPONDENTS

## INTEREST OF AMICUS CURIAE

The Motor Vehicle Manufacturers Association of the United States, Inc. (MVMA) is a voluntary, non-profit association composed of companies engaged in the manufacture and sale of motor vehicles in the United States.[1] MVMA's eleven members assemble more than 98% of the cars, trucks and buses produced in the United States, operate more than 300 manufacturing facilities and franchise over 20,000 retail dealers of their vehicles in this country. MVMA submits this brief in support of the Respondents' position. Pursuant to Supreme Court Rule 36.2, the written consent of the parties accompanies this brief.

MVMA members' familiar trademarks, such as FORD, GENERAL MOTORS, CHRYSLER and JEEP, originated in the U.S. and are among the most readily recognized marks worldwide. As trademark owners, MVMA members have a direct and vital interest in the resolution of the principal issue before this Court: the validity of the U.S. Customs Service regulation permitting the importation of certain so-called "grey market goods".

Motor vehicles are among the most complex, costly, essential durable consumer goods and represent the second largest purchase of most consumers. It is well recognized that the motor vehicle industry is highly regulated. Federal and state governments place extensive responsibility for the safety and quality of vehicles sold in the United States upon motor vehicle manufacturers.

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[1] The Motor Vehicle Manufacturers Association of the United States, Inc. is an incorporated not-for-profit trade association which has no parent companies, subsidiaries or affiliates. Its members are: American Motors Corporation; Chrysler Corporation; Ford Motor Company; General Motors Corporation; Honda of America Manufacturing, Inc.; IJFV Aerospace & Defense Company, AM General Division; M.A.N. Truck & Bus Corporation; Navistar International Corporation; PACCAR Inc.; Volkswagen of America, Inc.; and Volvo North America Corporation.

The Court's decision in this case will ultimately define the degree of control that a domestic vehicle manufacturer may lawfully exert over the distribution of its trademarked products. Neither Respondents, whose position MVMA supports, nor Petitioners, are likely to present to the Court the effects of its decision on the enforcement and implementation of the government policies embodied in the pervasive vehicle safety, emissions, fuel economy and consumer protection regulations.

## INTRODUCTION AND SUMMARY OF ARGUMENT

This *Amicus* brief sets forth an analysis of the consequences which would flow from a reversal of the Court of Appeals decision to the highly regulated U.S. motor vehicle industry, its distribution practices and the quality of its products, and its consumers. It will demonstrate that the U.S. Customs Service regulation, 19 C.F.R. § 133.21, by facilitating imports into the United States of automobiles which do not comply with U.S. requirements, adversely affects legitimate distribution practices of U.S. vehicle manufacturers. The Customs regulation also undermines the public interest by failing to assure that vehicles sold in the United States comply with federal and state standards.

Contrary to Petitioners' assertions, grey market motor vehicles bearing marks identical to the U.S. registered marks cannot be presumed to be the same as vehicles sold in the United States by MVMA member companies, or to comply with standards applicable to the United States. By virtue of the Customs regulation, importation into this country of unqualified vehicles from Canada, Mexico and overseas allows a deceit on the public, as well as an infringement upon the legitimate interests of the domestic vehicle industry in controlling distribution of its motor vehicles.

This brief examines the proper context of § 526 of the Tariff Act, 19 U.S.C. § 1526, to demonstrate that there is no policy or

legal justification for the Customs regulation under modern trademark law. The invalidity of the Customs regulation becomes apparent when its effect on the substantive rights and responsibilities of U.S. trademark registrants is considered. The motor vehicle industry is characterized by an extensive consumer-manufacturer relationship beginning before the purchase of a vehicle and lasting for years thereafter. The interest in meeting consumer needs is reinforced by the expanding range of statutory obligations to consumers. In this context, the strong reliance placed on the trademark applied to a vehicle and the good will established in the United States by MVMA member companies is undercut by the Customs regulation contrary to the Tariff and Trademark Acts.

## ARGUMENT

### I. THE CUSTOMS SERVICE REGULATION CONFLICTS WITH PUBLIC POLICIES AFFECTING MOTOR VEHICLE DISTRIBUTION IN THE UNITED STATES

Section 526 of the Tariff Act, on its face, grants protection to U.S. owners of registered trademarks without limitation. Therefore, in order to buttress the Customs Service's so-called "common control" exception to this protection, Petitioners have stressed the importance of the "legitimate commercial expectations in this instance". Brief for Federal Petitioner at 44. We now examine in some detail those "expectations" for the domestic motor vehicle industry.

#### A. The Customs Regulation Operates At Cross Purposes To The Many Federal And State Regulations Which Presuppose Manufacturer Control Of Motor Vehicle Distribution

U.S. motor vehicle manufacturers are subject to a myriad of state and federal laws and regulations enacted to protect public

health, safety and consumer welfare. These laws and regulations affect vehicle safety, emissions, fuel economy, noise levels, labelling and warranties.[1] This phenomenon was recognized by this Court in *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 55, note 23 (1977), where it stated that "[A]s a result of statutory and common-law developments, society increasingly demands that manufacturers assume direct responsibility for the safety and quality of their products."

In enacting these statutes affecting the automobile industry, Congress and state legislatures presupposed that U.S. motor vehicle manufacturers control the distribution of vehicles sold in the United States under their trademarks. The Customs Service regulation undercuts this assumption by facilitating the importation of grey market brand name vehicles that U.S. motor vehicle manufacturers did not intend to be sold in the United States.

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[1] For example, manufacturer suggested retail price labelling requirements are set forth in the Automobile Information Disclosure Act, 15 U.S.C. § 1231, *et seq.*; safety standards, reporting and recall provisions in the National Traffic and Motor Vehicle Safety Act of 1966, 15 U.S.C. § 1381, *et seq.*; bumper, fuel efficiency and theft prevention standards in the Motor Vehicle Information and Cost Savings Act, 15 U.S.C. § 1901, *et seq.*; emissions standards, warranties, reporting and recall provisions in the Clean Air Act, 42 U.S.C. § 7401, *et seq.*; noise standards in the Noise Control Act of 1972, 42 U.S.C. § 4901, *et seq.*; "gas guzzler" taxes, Internal Revenue Code, 26 U.S.C. § 4064.

In addition, various state laws further regulate vehicle equipment and performance and assorted warranty (i.e., "lemon law") obligations. See for example, Cal. Health & Safety Code § 43000, *et seq.* (West Supp. 1986); Motor Vehicle Warranty Enforcement Act, Fla. Stat. Ann. § 681.101, *et seq.* (West Supp. 1987); New Car Buyer Protection Act, Ill. Ann. Stat. ch. 121-1/2, § 1201, *et seq.* (Smith-Hurd Supp. 1986); Mass. Ann. Laws ch. 90, § 7N-1/4 (Michie/Law. Coop. Supp. 1987); An Act Concerning Certain Automobile and Motorcycle Warranties, N.J. Stat. Ann. § 56:12-19, *et seq.* (West Supp. 1986); and N.Y. Gen. Bus. Law § 198a (McKinney Supp. 1987).

Despite the fact that many vehicles intended for sale outside the United States may look like a U.S. vehicle, there may be many significant differences. CHRYSLER, FORD or CHEVROLET branded vehicles intended for sale outside the U.S. are equipped to meet local market conditions. As such, they may possess different suspensions, chassis, engines and standard and optional equipment.

Perhaps the most glaring regulatory areas in which the Customs Service regulation is at odds with other federal and state regulatory efforts involve safety and emissions. Regulations require that Customs identify vehicles which lack a certificate attesting conformance to U.S. safety and emissions standards and require posting a bond to ensure that such vehicles will be modified to meet those standards.[3] The effectiveness of these regulations hinges on identification by Customs of grey market vehicles. If, because of the familiar trademark, a vehicle is not recognized or policed as grey market, these Customs Service controls cannot work. Yet, if the Customs Service regulation at issue followed the plain meaning of § 526, then grey market vehicles that do not comply with applicable vehicle standards could be effectively excluded from the United States. These conflicting policy concerns with grey market European automobiles are discussed in a recent report of the United States General Accounting Office.[4] Similar compliance issues and policy conflicts exist with regard to the grey market importation from Canada and elsewhere of vehicles bearing the trademarks of U.S. motor vehicle manufacturers.

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[3] 19 C.F.R. § 12.73, *et seq.* (1984).

[4] Report to the Chairman, Subcommittee on Oversight and Investigations, Committee on Energy and Commerce, House of Representatives entitled, "Auto Safety and Emissions — No Assurance that Imported Grey Market Vehicles Meet Federal Standards", December 1986. Copies of this report are being lodged with the Court for its convenience.

### 1. Motor Vehicle Safety Regulation

The National Traffic and Motor Vehicle Safety Act of 1966, 15 U.S.C. § 1381, *et seq.*, as amended, requires that new vehicles sold or imported into the United States comply with federal motor vehicle safety standards. Pursuant to that Act, the Secretary of Transportation has issued 49 safety standards to promote automotive safety and to reduce traffic accidents, including deaths and injuries. Federal Motor Vehicle Safety Standards, 49 C.F.R. § 571, *et seq.* (1986).

In the case of the unbridled importation from Canada or Mexico of grey market vehicles bearing the trademarks of U.S. motor vehicle manufacturers because of current Customs enforcement policies, consumers have no guarantee that such vehicles meet all U.S. safety standards. It is believed that most consumers do not even know they are buying a grey market vehicle because they rely on the U.S. trademark in their purchasing decision.

In the event of a safety recall, whether mandatory or voluntary, owners of grey market vehicles bearing the trademarks of U.S. motor vehicle manufacturers may not be notified. The U.S. manufacturer has no record of those vehicles being in the United States. This inability to locate and notify owners of recalled vehicles may prevent MVMA member companies from remedying the conditions which required recall.[5]

The consequences of a failure to locate and recall a grey market vehicle could present a safety risk to consumers. The lower prices claimed by the proponents of grey market goods do not compensate consumers for such risks.[6]

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[5] This assumes, which may not be the case, that the grey market vehicle has sufficient basic equipment that can be upgraded to correct the faulted conditions.

[6] National economic conditions, including foreign price controls or extremely high sales taxes, often have the effect of "lowering" the manufacturer's price in some overseas markets, but there is no

### 2. Mobile Source Pollution Control

The Clean Air Act, as amended, 42 U.S.C. § 7401, *et seq.*, requires that all new gasoline and diesel fueled vehicles be certified to the Environmental Protection Agency (EPA), by the vehicle manufacturer as meeting emission standards for hydrocarbon, carbon monoxide, oxide of nitrogen, evaporative, and, where applicable, diesel particulates. These vehicle emissions may affect air quality and pose public health risks.

Vehicles manufactured for sale outside the United States are subject to different emission control regulations. For example, CHEVROLET and PLYMOUTH branded vehicles sold in Mexico lack catalytic converters necessary to meet U.S. emission standards. Moreover, even if some CHEVROLET, PLYMOUTH and FORD branded vehicles sold outside the United States are capable of meeting U.S. emissions performance standards, those vehicles do not comply fully with all other U.S. regulatory requirements, including certification.[7] Despite MVMA member company efforts, the Customs Service routinely passes uncertified grey market vehicles into the United States without verifying that these vehicles conform to all applicable U.S. statutes and regulations. In essence, the Customs Service allows these vehicles into the United States

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basis in law or equity for exporting foreign government economic distortion to the U.S., where different U.S. governmental policies have resulted in different costs and different prices.

[7] EPA regulations allow certain heavy-duty trucks equipped with gasoline engines to be sold in the United States although they may exceed U.S. emissions standards. 40 C.F.R. § 86.1101-87 (1985). Under the law, those vehicles manufactured for use in the United States require payment of a non-conformance penalty (NCP), and must display labels indicating payment of an NCP and the nonconforming pollutant compliance level and a certificate of compliance with EPA regulations. Grey market trucks intended for sale in Canada do not have an NCP label, nor is any NCP payment made to EPA.

merely because they bear the familiar trademark of a U.S. motor vehicle manufacturer.

Just as in the case of safety recalls, MVMA member companies are unable to recall grey market vehicles for possible emissions equipment modifications. Grey market vehicles are simply "invisible" for recall purposes; they are a phantom fleet.

### 3. Motor Vehicle Fuel Efficiency

The Customs Service regulation undercuts the corporate average fuel economy (CAFE) standards established by Congress and the Department of Transportation.

In 1975, Congress enacted the Energy Policy and Conservation Act, 15 U.S.C. §§ 753-55; 757-60h; 792; 796; 1901; 2001-12; 42 U.S.C. §§ 6201-6422, in response to the 1973 Mideast oil crisis and for the purpose of reducing consumption of petroleum products. Title III of that Act, 15 U.S.C. § 2001, *et seq.*, requires U.S. motor vehicle manufacturers to meet increasingly stringent fuel economy goals for their vehicles sold in the United States. The Act sets a fuel efficiency standard measured by miles per gallon and averaged over the entire fleet of cars produced each year for sale in the United States. Under the Act, automobile manufacturers not meeting the CAFE standards are subject to fines.

The large scale importation into the United States of grey market vehicles intended for sale in foreign countries falls outside of any CAFE calculation. By not blocking the importation of grey market motor vehicles, the Customs Service regulation is thwarting the intent of Congress with regard to U.S. consumption of petroleum products.

### 4. Warranty And Consumer Information

Vehicles intended for sale outside the United States are likely to be equipped differently and perform differently than their U.S. counterparts. They are likely to contain metric

instrument gauges, have owner's manuals in a foreign language, lack labels or other consumer notices required by U.S. law, and have different warranties, even though the motor vehicle may bear a famous trademark of a MVMA member company and model designation identical to that used in the United States.

All vehicles intended for sale in the United States must exhibit price labels or "window stickers" as required by the Automobile Information Disclosure Act, 15 U.S.C. § 1231, *et seq.* Among other things, this label informs consumers of all optional and standard equipment contained on the vehicle including the manufacturer's suggested retail price for each item. The label of vehicles intended for sale outside the United States may not display all of the information that is required by U.S. law. Although the Act provides that an importer also must affix this label, there is no assurance for example, that a broker importing 200 new CADILLAC branded vehicles from Canada to the United States will be able to list accurately the equipment they contain, provide the correct manufacturer's suggested retail prices in U.S. dollars or fuel consumption information in miles per gallon.

Motor vehicles intended for sale outside the United States may differ with respect to the manufacturers' warranties. The scope of U.S. and foreign warranties may vary as to the equipment covered and the term of the protection, and the grey market importer is unlikely to make-up any warranty deficiency.[8]

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[8] Components such as tires may have separate warranties from those extended by the vehicle manufacturer. The warranties may have no value outside the country where the vehicle was sold initially. Emissions performance warranties by the U.S. vehicle manufacturer required by federal and California law may not be applicable to grey market vehicles. See, e.g., Energy Policy and Conservation Act, 42 U.S.C. § 7521; 40 C.F.R. § 85.2107 (1986); Cal. Health & Safety Code § 43204 (West Supp. 1986); Cal. Admin. Code tit. 13, § 2035.

The Customs Service regulation permitting the importation of these vehicles into the United States facilitates customer deception and a loss of good will on the part of vehicle manufacturers and their dealers because consumers end up getting vehicles different from those they reasonably expected to receive. As a result, owners of the vehicles may unexpectedly face fines or repair costs before the vehicles can be registered.[9]

Further, whatever warranty might be provided by the manufacturer may have already expired by the time a problem is noted. For example, the time clock on warranties starts with the first sale of the vehicle by a dealer. By the time the vehicle has passed from a foreign dealer through the grey market channel, several months of warranty may have elapsed, yet the U.S. consumer is unaware of this since he views the vehicle as new.

A consumer who unknowingly buys a new grey market vehicle, intended for sale in the United Kingdom, Mexico, Canada or elsewhere, expects the vehicle to meet all U.S. legal requirements and believes that his warranty and servicing will be the same as for authorized vehicles sold in the U.S. In most cases, consumers believe that they are purchasing U.S. authorized vehicles because the grey market vehicle bears a famous trademark identical to those used in U.S. production. Consumers frequently become confused and dismayed as to why there is no warranty or why the warranty is different from those of other domestic vehicles. MVMA member companies suffer a loss of good will because the consumer blames the U.S. trademark owner and not the grey market importer.

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[9] See, e.g., Arizona Annual Emission Inspection of Motor Vehicles, Ariz. Rev. Stat. Ann. § 36-1771, *et seq.* (Supp. 1986); Md. Transportation Code Ann. § 23-201, *et seq.* (1984); and Michigan Vehicle Emissions Inspection and Maintenance Act, Mich. Comp. Laws Ann. § 257.1051, *et seq.* (West Supp. 1986).

## B. The Customs Regulation Adversely Affects U.S. Manufacturers' Control Of Distribution Of Their Vehicles

U.S. manufacturers distribute trademarked motor vehicles through over 20,000 independent franchised dealers whose relationships with the U.S. motor vehicle manufacturers are controlled by comprehensive sales and service agreements. A dealer makes a significant capital investment in order to be authorized to sell at retail and to provide services for new vehicles. In most cases, a dealer's investment includes real estate, sales and service facilities, a trained staff of certified technicians, mechanics and an inventory of new vehicles and parts. A typical dealer's agreement contains not only vertical restrictions intended to promote marketing efficiency, [10] but also requirements regarding pre- and post- sale information, equipment and training and replacement parts inventories.

This Court has recognized that "[S]ervice and repair are vital for many products, such as automobiles and major household appliances. The availability and quality of such services affect a manufacturer's good will and the competitiveness of his product." *Continental* v. *GTE,* 433 U.S. at 55.

Consumer dissatisfaction with grey market vehicles harms the good will of MVMA member companies and their dealers and the image and reputation of their products and trademarks. Brokers of grey market vehicles have no incentive to protect the good will of MVMA member companies' trademarks. The

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[10] "Vertical restrictions promote interbrand competition by allowing the manufacturer to achieve certain efficiencies in the distribution of his products. . . . Established manufacturers can use them to induce retailers to engage in promotional activities or to provide service and repair facilities necessary to the efficient marketing of their products. . . . Because of market imperfections such as the so-called 'free rider' effect, these services might not be provided by retailers in a purely competitive situation, despite the fact that each retailer's benefit would be greater if all provided the service than if none did." *Continental* v. *GTE,* 433 U.S. at 54-55.

marketing scheme of grey market brokers is to sell famous brand name products solely on the basis of price. This goal is achieved by the unauthorized use of famous trademarks of MVMA member companies which, because of the commercial magnetism of the marks, allows the grey market broker to sell grey market goods with little or no investment. In this manner, the grey market broker free rides on the advertising, servicing and good will associated with the trademark and disrupts the legitimate distribution of goods and services under U.S. registered trademarks.

## II. THE CUSTOMS SERVICE REGULATION CONFLICTS WITH U.S. TRADEMARK LAW

Petitioners' treatment of trademark rights has a distinct "now you see it, now you don't" quality. Petitioners invoke principles of trademark law to point to the "sharp departure" supposedly represented by § 526 of the Tariff Act as reason for this Court to ignore the plain language of the statute and, instead, delve into the ambiguous legislative history and conflicting case law surrounding the statute. Thereafter, they consider § 526 and the Customs regulation in a vacuum as far as the substantive rights of U.S. trademark owners are concerned.

It is clear that the Customs regulation is enabled by both the 1930 Tariff Act and the Lanham Act. While § 526 is commonly referred to as a Customs or trade statute, it is also clear that application and understanding of this statute cannot be undertaken without reference to trademark law. Yet, trademark owners' rights, which are at the heart of § 526, are totally ignored.

The banner trademarks of the MVMA member companies, such as CHEVROLET, FORD, CHRYSLER and JEEP, are the linchpins that make the franchised vehicle dealer system function. The good will associated with these and similar marks is the magnet that draws retail customers to the dealership.

Grey market distribution of motor vehicles puts this valued good will in the hands of others and beyond the legitimate control of MVMA member companies. That is quite simply not fair or in the public interest. Affirmance of the Court of Appeals decision would assure that domestic vehicle manufacturers can enjoy in full the benefits of the good will they have worked to establish in their famous marks and to assure that the policy interests behind the vehicle safety, emissions and fuel economy laws are satisfied.

### A. Trademarks Provide The Cornerstone To The Effective Distribution Of Domestic Motor Vehicles

The foundation of American trademark law rests upon the bedrock proposition that a trademark symbolizes the good will of the product, service or business in connection with which the mark is employed. *McLean* v. *Fleming,* 96 U.S. 245 (1878). Adjunct to this proposition is that a trademark, as a symbol of good will, constitutes legally protectable property. *Old Dearborn Distributing Co.* v. *Seagram-Distillers Corp.,* 299 U.S. 183, 194 (1936).

*A. Bourjois & Co., Inc.* v. *Katzel,* 260 U.S. 689 (1923), established the principle of "territoriality" of trademarks and barred the importation of goods produced abroad and bearing a "genuine" trademark. In *Bourjois,* the Court held that the mark in question was the trademark of the plaintiff in the United States; that mark "indicates in law" and by public understanding that the goods came from the plaintiff, although not made by it. 260 U.S. at 692.

It is generally acknowledged that § 526 of the Tariff Act was enacted in response to the decision by the Court of Appeals for the Second Circuit in *A. Bourjois & Co., Inc.* v. *Katzel,* 275 F. 539 (2d Cir. 1921), *rev'd* 260 U.S. 689 (1923). The same Circuit Court subsequently considered the scope of § 526 in *Sturges* v. *Clark D. Pease, Inc.,* 48 F.2d 1035 (2d Cir. 1931). It held that a second-

hand "Hispano-Suiza" auto shipped from Europe should be excluded because the U.S. owner of the "H-S" trademark registration had filed it with Customs authorities. The Second Circuit recognized that, under § 526, the U.S. trademark owner and U.S. distributor for "Hispano-Suiza" cars had the right to have Customs exclude even one single automobile. This decision broadly interpreting § 526 was by the very court that earlier had decided that the goods in *Katzel* should not be excluded. Judge Augustus Hand stated:

> "A mark betokening the origin of a car is an important element in its value, and the American owner of the mark is entitled to have the benefit of such sales as are affected by it." 48 F.2d at 1037.

The case for the MVMA member companies' trademarks such as CHRYSLER, FORD and CHEVROLET is more compelling than *Sturges*. These famous marks originated in the U.S. and are owned by long established U.S. companies.

### 1. MVMA Member Companies' Trademarks Serve A Quality Or Guarantee Function

Supporters of the Customs Service regulation misconceive the nature and scope of the function of trademarks; they would allow consumers to be deceived and misled. Trademarks have, among other things, a "quality" or "guarantee" function. 1 McCarthy, Trademarks and Unfair Competition, § 3:4 (2nd ed. 1984). Under the quality function of trademarks, a mark not only indicates a source, but also serves as a badge of quality to indicate a level of consistent quality of goods or services. *Park'N Fly, Inc.* v. *Dollar Park and Fly, Inc.*, 469 U.S. 189, 193 (1985) ("trademarks desirably promote competition and the maintenance of product quality . . ."). In fact, some of the very trademarks of MVMA member companies, such as CADILLAC, LINCOLN, and NEW YORKER, in the minds of American consumers, set the standards for quality.

Passage of the Lanham Act in 1946 and subsequent amendments codified the quality function of trademarks. 15 U.S.C. § § 1114 and 1127 (expanded test of confusion of any kind and definition of "related company"). It is the trademark functions of indication of quality and of source which provide the very basis for modern business franchising so vital to U.S. motor vehicle manufacturers. The Customs Service regulation at issue here aids and abets the unauthorized use of the marks, to the total detriment of the franchise system.

Trademarks also serve the manufacturer, merchant or seller as an important advertising element in promoting their goods and services. The advertising function of trademarks creates the consumer demand for the goods and services on which the mark appears. MVMA member companies have committed significant funds to promote products bearing their registered trademarks with the expectation of sales and resultant economic gain. Not only are their trademarks symbols of good will, indications of source and badges of quality, but a highly efficient means for creating consumer demand and acceptance for the goods and services. *Mishawaka Rubber & Woolen Mfg. Co.* v. *S.S. Kresge Co.*, 316 U.S. 203, 205 (1942) ("protection of trademarks is the law's recognition of the psychological value of symbols" in the purchasing decision).

### 2. Customers Of U.S. Motor Vehicle Manufacturers Have An Interest In Trademarks That Must Be Protected

Trademarks protect the interests of trademark owners, their franchisees and consumers. The multiple interest in trademark protection (i.e., the interest of the consumer as well as the trademark owner), have been recognized by the courts and Congress. *Park'N Fly*, 469 U.S. at 198. (The Lanham Act protects a trademark owner's good will and consumer's ability to distinguish competing products.) See also, *Dallas Cowboys Cheerleaders, Inc.*

v. *Pussycat Cinema Ltd.*, 604 F.2d 200, 205 (2d Cir. 1979). Protection of U.S. trademarks, therefore, must be viewed from both the trademark owners' and the consumers' interests. By denying § 526 protection to certain U.S. manufacturers and domestic registrants and thereby permitting widespread grey marketing, the Customs Service regulation fails to protect the interests of consumers as well as U.S. manufacturers and trademark owners. Specifically with respect to the U.S. motor vehicle industry, it flies in the face of the public policy embedded in the federal and state vehicle safety, emissions and fuel economy laws.

### B. The Customs Service Regulation Impairs U.S. Trademark Rights

There can be no doubt that the Customs Service regulation fails to protect a substantial number of domestic registrants of U.S. trademarks and thus impairs their substantive rights. One Petitioner argues that the Customs Service regulation comports with U.S. trademark law, but the contrary is true.

The Customs Service regulation denies MVMA member companies owning U.S. registered trademarks the procedural protection that the plain meaning of § 526 provides. Protection is denied simply on the grounds of an arbitrarily defined degree of ownership or relationship between the domestic trademark registrant and a foreign entity or because the goods are made overseas where the mark is applied to the goods with permission of the U.S. trademark owner.

Petitioners attempt to justify the Customs Service regulation on the ground that, as to this class of U.S. trademark registrants, the procedural protections of § 526 should be denied as there can be "no confusion of source" as to grey market goods. Brief for Petitioner K Mart at 38. Petitioners attempt to explain that in these instances (and paradoxically not in others), consumers know the goods are of foreign manufacture

or are distributed by a U.S. company having some relationship with the foreign trademark owner and manufacturer. This argument narrowly focuses on archaic functions of trademarks and completely ignores the obvious fact that a domestic trademark registrant is entitled to protection from confusion of any kind including confusion as to affiliation, sponsorship and approval. See *Warner Bros., Inc.* v. *Gay Toys Inc.*, 658 F.2d 76, 79 (2d Cir. 1981). If, as Petitioners urge, the Customs Service regulation denies § 526 protection to certain U.S. registrants because of the alleged absence of source confusion, then the regulation directly conflicts with U.S. trademark law by failing to consider other forms of confusion, such as confusion concerning the quality and advertising functions of trademarks. These functions and services are being performed by U.S. motor vehicle manufacturers and their authorized franchisees who distribute, service and promote the sale of vehicles which meet federal and state laws and bear their famous U.S. trademarks.

Moreover, Petitioner's argument supporting the Customs Service regulation under the source theory of trademarks considers only alleged absence of confusion as to the identity of the manufacturing source without considering the identity of the U.S. distributional source of the goods or services. The "distributional source" function of trademarks is found in the very definitions of the terms "trademark" and "service mark" in the Lanham Act. 15 U.S.C. § 1127.

No Petitioner has explained, or can explain, the paradox which exists under the Customs Service regulation where confusion of source is assumed to exist for U.S. trademark registrants qualifying for § 526 protection, while for other U.S. trademark owners who are denied § 526 protection, confusion of source is assumed not to exist. This anomaly serves to illustrate that there is no legal or policy justification for the Customs Service regulation under modern trademark law.

### C. MVMA Member Companies Have An Exclusive Right To The Use Of Their Trademarks In The United States

Registration of a mark on the Principal Register is *prima facie* evidence of a registrant's ownership, the validity of the registration and of the exclusive right of the registrant to use the mark in commerce in connection with the goods specified in the Certificate of Registration. 15 U.S.C. § 1057. The importance of the "exclusive right of use" was emphasized by this Court's pronouncement that unless an incontestable registration could be asserted to enjoin infringement by others, the "exlcusive right" recognized by the Lanham Act would be rendered meaningless. *Park'N Fly,* 469 U.S. at 196. This same "exclusive right" is in fact stripped away by the Customs Service regulation since it allows others to use the famous marks of MVMA member companies without their consent.

Petitioners attempt to justify the invasion of a U.S. trademark registrant's exclusive right of use by asserting that the registrant does not qualify for § 526 protection when its mark does not possess good will in the United States apart from any good will which the mark enjoys elsewhere in the world. This justification is contrary to the statutorily conferred *prima facie* and conclusive presumptions of validity and ownership which are accorded all U.S. trademark registrations. 15 U.S.C. §§ 1057, 1115(b). These statutory presumptions of ownership and validity carry with them the added presumption that good will exists and is appurtenant to the mark because, by definition, a trademark is a symbol of good will and can have no existence apart from the good will which it represents. *McLean* v. *Fleming,* 96 U.S. at 252; *United Drug Co.* v. *Theodore Rectanus Co.,* 248 U.S. 90, 97 (1918); 15 U.S.C. § 1057(b). In *Park'N Fly,* this Court stated that "[T]he Lanham Act provides national protection of trademarks in order to secure to the owner of the mark the good

will of his business and to protect the ability of consumers to distinguish among competing producers". 469 U.S. at 198.

The denial of § 526 protection to a substantial class of U.S. trademark registrants such as MVMA member companies on the ground that such registrants have not established good will in the United States is directly contrary to the statutory presumption that the registered mark is valid and owned by the registrant of record and, therefore, symbolizes good will. It is pure folly to suggest that MVMA member companies such as General Motors, Ford and Chrysler do not have established good will in the United States. Yet, the Customs regulation denies this fact.

The question before this Court cannot be decided by Petitioners' contorted reading of the statute and resort to inapplicable principles of statutory construction. A plain reading of § 526 with a fundamental knowledge and appreciation of modern trademark law manifests the intention of this section to include all U.S. registrants who are citizens of and domiciliaries in the United States regardless of what relationship they have with their authorized users of identical foreign marks.

### D. The Statutory Preference To U.S. Parties Under § 526 Serves A Legitimate Purpose

Section 526 enhances the substantive rights granted to U.S. trademark owners under the Lanham Act by creating a procedure for recording trademark registrations with the Customs Service and receiving a comprehensive exclusion order. Unlike the provisions of the Lanham Act, § 526 does not extend its procedural advantages to foreign entities. However, since § 526 does not impart any additional substantive trademark rights on its beneficiaries, it is not inconsistent with § 44(b) of the Lanham Act, 15 U.S.C. § 1126(b), or relevant international treaties which require reciprocity of rights.

Moreover, as a Customs and trade statute, § 526 was naturally designed and intended to protect United States trade

and domestic businesses such as MVMA member companies. This is a lawful and legitimate purpose which has also been the basis for similar procedural benefits accorded to U.S. owners of other intellectual property rights. For example, under § 601, *et seq.* of the Copyright Act, 17 U.S.C. § 601, *et. seq.,* only a U.S. national or domiciliary can exclude the importation of certain copyrighted works. Likewise, under § 337 of the Tariff Act of 1930, 19 U.S.C. § 1337, merchandise may be excluded by the International Trade Commission if it finds the existence of unfair practices or unfair methods of competition against a domestic industry.

Petitioners and this *Amicus* agree that § 526 was enacted to protect domestic businesses such as the MVMA member companies here. Yet, the Customs regulation prevents MVMA member companies from availing themselves of the benefit of the Tariff Act simply because products bearing these trademarks are sold abroad with their consent.

## III. CONCLUSION

The decision of the Court of Appeals for the District of Columbia Circuit should be affirmed.

Respectively submitted,

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